

Office of the
Legislative Fiscal Analyst

FY 2004 Budget Recommendations

Joint Appropriations Subcommittee for
Capital Facilities and Administrative Services

Utah Department of Administrative Services
Internal Service Funds
Office of State Debt Collection

Contents:

- 1.0 Summary
- 2.0 Issues
- 3.0 Programs
- 4.0 Additional Information

1.0 Office of Debt Collection

	Analyst FY 2004 Base	Analyst FY 2004 Changes	Analyst FY 2004 Total
Financing by Source			
Dedicated Credits Revenue	455,000		455,000
Licenses/Fees	128,200		128,200
Interest Income	531,500		531,500
Other Financing Sources	7,300		7,300
Total	<u>\$1,122,000</u>	<u>\$0</u>	<u>\$1,122,000</u>
Expenditures by Program			
ISF - Debt Collection	<u>1,122,000</u>		<u>1,122,000</u>
Total	<u>\$1,122,000</u>	<u>\$0</u>	<u>\$1,122,000</u>
Profit/Loss	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
FTE/Other			
Total FTE	5		5
Retained Earnings	72,700		72,700

Senate Bill 235 of the 1995 Legislative Session established the Office of State Debt Collection. The office manages collection for past due debts to the State and has the following responsibilities:

- ◆ Collecting and managing state receivables;
- ◆ Developing consistent policies governing the collection and management of State receivables;
- ◆ Overseeing and monitoring State receivables;
- ◆ Developing policies, procedures and guidelines for accounting, reporting, and collecting monies owed to the State;
- ◆ Providing information, training, and technical assistance to State agencies on collection-related topics;
- ◆ Writing an inclusive receivables management and collection manual for use of State agencies;
- ◆ Preparing quarterly and annual reports of the State's receivables;
- ◆ Creating/coordinating a State accounts receivable database, information systems, and procedures;
- ◆ Establishing an automated case receipt process between State agencies;
- ◆ Establishing procedures for writing-off accounts receivable for accounting and collections purposes.

The program contracts with private vendors to assist in collection of outstanding debt. Revenue is generated for the program by assessing an administrative fee against each collection. No tax funds are appropriated to this program.

2.0 Budget Highlights

2.1 Use of Retained Earnings

When the Legislature created the Office of State Debt Collection in 1995 it provided a General Fund subsidy to ensure that the operation would get off to a successful start. With an accumulation of retained earnings in the program, it became clear that the organization could continue to operate without the subsidy. In FY 2001, the Legislature reallocated the General Fund subsidy for the Office of State Debt Collection to other needs in state government. Since that time, retained earnings increased to a point that the fund became a supplemental source to balance the current year state budget.

2.2 Intent Language

The Office of State Debt Collection must hire private collectors to recover past due debts owed to the State. OSDC may also incur legal and administrative costs that would not occur if obligations were paid when originally due. The Analyst believes that this added cost should be borne by debtors and not other taxpayers. To ensure that expenses for this program are paid by those creating the costs, the Analyst recommends inclusion of the following language in the Appropriations Act:

It is the intent of the Legislature that the Office of State Debt Collection be authorized to establish reasonable costs of collection to be passed onto the debtor including attorney fees, all legal costs and administrative costs unless inappropriate or prohibited by law.

This language appears in the last three Appropriation Acts and seems to be worthy of inclusion in statute or Administrative Rule. The Analyst recommends that the OSDC pursue a permanent means of obtaining this authority.

3.0 Program: Debt Collection

	2002 Actual	2003 Estimated	2004 Analyst	Est/Analyst Difference
Financing				
Dedicated Credits Revenue	413,700	450,000	455,000	5,000
Licenses/Fees	191,400	125,700	128,200	2,500
Interest Income	767,200	521,100	531,500	10,400
Transfers	(350,900)	(67,100)		67,100
Other Financing Sources	(17,100)	7,000	7,300	300
Total	\$1,004,300	\$1,036,700	\$1,122,000	\$85,300
Expenditures				
Personal Services	282,700	315,000	314,100	(900)
In-State Travel	300	600	600	
Out of State Travel	600	1,300	1,300	
Current Expense	276,200	365,600	370,500	4,900
DP Current Expense	16,500	25,900	22,500	(3,400)
Other Charges/Pass Thru	388,700	395,400	413,000	17,600
Total	\$965,000	\$1,103,800	\$1,122,000	\$18,200
Profit/Loss	\$39,300	(\$67,100)	\$0	\$67,100
FTE/Other				
Total FTE	4	5	5	
Retained Earnings	639,800	572,700	72,700	(500,000)
*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency				

OSDC Operates Differently than Other ISF Agencies

One concern with the conversion of OSDC to an Internal Service Fund was in the ability of the Division to continue to make enough profit to cover expenses. In reality, OSDC is not an Internal Service Fund. Internal Service Funds provide general service to other state agencies – the OSDC collects past due bills for other agencies, but their funding is from debtors rather than state agencies. Therefore, funding sources for the Division do not include “intra-governmental revenue.” OSDC would like to see their statutory authority moved out of the ISF statute which would result in the Division appearing as one of the other appropriated divisions within DAS.

The transition to appropriated agency should not impact budgets nor should it create any difference in operations. This seems to be a transparent change so far as users and taxpayers are concerned – provided that the Division continues to report revenue, expenses and retained earnings. The advantage to treating OSDC as an internal service fund is that the division must report on the standard ISF form. Any change in statute should maintain the amount of reporting received by the Legislature in regard to profit and loss within the program.

If the Legislature chooses not to act on this issue during the General Session, the Analyst recommends that DAS present this issue to the Government Operations Interim Committee for further review in the 2003 Interim.

Performance Measures

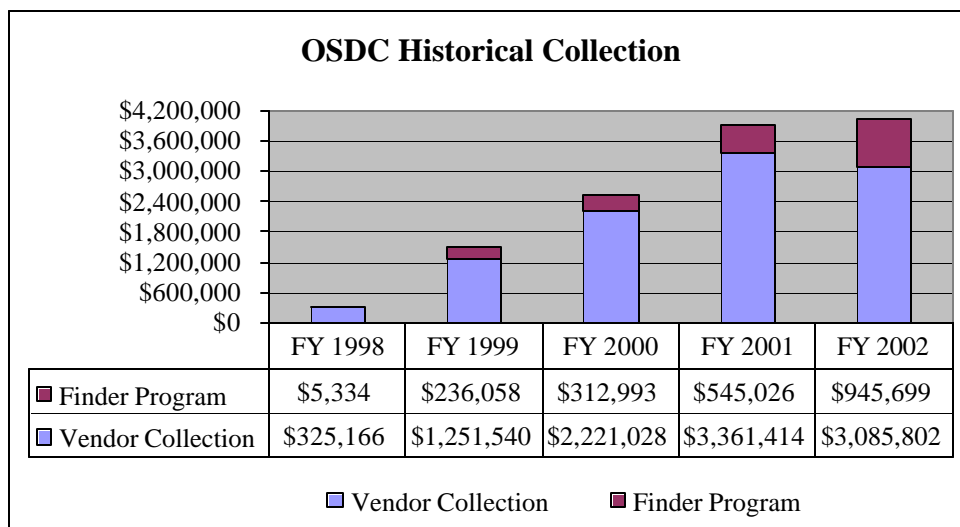
Despite annual predictions that the program will break even, OSDC's retained earnings climbed each year since 1999. The FY 2003 projection assumes flat revenue and the transfer of \$67,100 to the Former Governor's Project at the State Archives.

OSDC Retained Earnings	
FY 1999	\$195,000
FY 2000	\$424,800
FY 2001	\$600,300
FY 2002	\$639,800
FY 2003	\$572,700

The table omits a supplemental reduction of \$500,000 in retained earnings used in the Sixth Special Session to fund statewide needs. This reduction does appear in the financing tables throughout this report.

Annual Report Highlights

The Office of State Debt Collection reports performance measures its Annual Report which can be found following the 4.0 section of this report. The report outlines collection activity for every agency of state government and makes recommendations for improving processes to maximize realization of all receivables. Since its inception in 1998, OSDC increased collections by nearly tenfold.



4.0 Tables: Office of Debt Collection

	2000	2001	2002	2003	2004
Financing by Source	Actual	Actual	Actual	Estimated	Analyst
Dedicated Credits Revenue	239,200	396,900	413,700	450,000	455,000
Licenses/Fees	153,300	140,000	191,400	125,700	128,200
Interest Income	282,000	569,700	767,200	521,100	531,500
Transfers			(350,900)	(67,100)	
Other Financing Sources	5,700	9,200	(17,100)	7,000	7,300
Total	\$680,200	\$1,115,800	\$1,004,300	\$1,036,700	\$1,122,000
Financing by Program					
ISF - Debt Collection	680,200	1,115,800	1,004,300	1,036,700	1,122,000
Total	\$680,200	\$1,115,800	\$1,004,300	\$1,036,700	\$1,122,000
Expenditures					
Personal Services	67,900	278,400	282,700	315,000	314,100
In-State Travel		100	300	600	600
Out of State Travel	900	1,800	600	1,300	1,300
Current Expense	191,100	305,500	276,200	365,600	370,500
DP Current Expense		14,900	16,500	25,900	22,500
Other Charges/Pass Thru	190,500	388,600	388,700	395,400	413,000
Total	\$450,400	\$989,300	\$965,000	\$1,103,800	\$1,122,000
Profit/Loss	\$229,800	\$126,500	\$39,300	(\$67,100)	\$0
FTE/Other					
Total FTE	2	4	4	5	5
Retained Earnings	195,100	600,300	639,800	572,700	72,700

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency.